MCI Communications Corporation
1801 Pennsylvania Avenue, NW
Washington, DC 20006
202 872 1600

ORIGINAL

December 11, 1995

Mr. William F. Caton
Secretary
Federal Communications Commission
Room 222
1919 M Street, NW
Washington, DC 20554

Re: CC Docket No. 94-1; Price Cap Performance Review for Local Exchange Carriers

CC Docket No. 93-124; Treatment of Operator Services Under Price Cap Regulation

CC Docket No. 93-197; Revisions to Price Cap Rules for AT&T

Dear Mr. Caton:

Enclosed herewith for filing are the original and four (4) copies of MCI Telecommunications Corporation's Comments in the above-captioned proceedings.

Please acknowledge receipt by affixing an appropriate notation on the copy of the MCI comments furnished for such purpose and remit same to the bearer.

Sincerely yours,

Chris Frentrup

Chris Frentrup
Senior Regulatory Analyst
Federal Regulatory

Enclosure
CF

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20054

In the Matter of	)	
	)	
Price Cap Performance Review	)	
for Local Exchange Carriers	)	CC Docket No. 94-1
	)	
Treatment of Operator Services	)	
Under Price Cap Regulation	)	CC Docket No. 93-124
	)	
Revisions to Price Cap Rules for AT&T	)	CC Docket No. 93-197

COMMENTS

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EXECUTIVE SUMMARY

The Commission seeks comment on a number of proposals for granting the local exchange carriers (LECs) additional pricing flexibility, for both their existing and new services, and on the competitive conditions under which this additional flexibility can be granted. MCI opposes granting additional pricing flexibility to the LECs, unless that flexibility is tied to reductions in access rates that will result in rates set at their economic cost. If LEC rates are allowed to remain at their current levels and the LECs are granted additional pricing flexibility, the LECs will be able to unreasonably discriminate among their customers, funding rate cuts for some customers with rate increases for others, meanwhile preserving their current inflated revenue stream.

MCI urges the Commission to retain the existing ratepayer protections in the new service rules, and to clarify the upper limit allowed on new servcie pricing. The Commission should retain its policy on Individual Case Basis (ICB) prices, but need not change the baskets or bands at this time. Before the Commission grants the LECs streamlined treatment, it must determine that the LECs have met a competitive checklist which ensures that other companies can compete effectively with the LECs. The LECs should be required to file a petition for waiver before being granted any further pricing flexibility. Finally, the LECs retain such market dominance that the Commission need not determine now how it will regulate the LECs when they become non-dominant.

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COMMENTS

I. INTRODUCTION

MCI hereby submits its comments in the above-captioned dockets.[1] The Commission seeks comment on a number of proposals for granting the local exchange carriers (LECs) additional pricing flexibility, for both their existing and new services, and on the competitive conditions under which this additional flexibility can be granted. MCI opposes granting additional pricing flexibility to the LECs, unless that flexibility is tied to reductions in access rates that will result in rates set at their economic cost. If LEC rates are allowed to remain at

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1 In the Matter of Price Cap Performance Review for Local Exchange Carriers, CC Docket No. 94-1; Treatment of Operator Services Under Price Cap Regulation CC Docket No. 93-124; and Revisions to Price Cap Rules for AT&T, CC Docket No. 93-197, Second Further Notice of Proposed Rulemaking in CC Docket No. 94-1; Further Notice of Proposed Rulemaking in CC Docket No. 93-124, and Second Further Notice of Proposed Rulemaking in CC Docket No. 93-197, FCC 95-393, released September 20, 1995 (Second Further Notice).

their current levels and the LECs are granted additional pricing flexibility, the LECs will be able to unreasonably discriminate among their customers, funding rate cuts for some customers with rate increases for others, meanwhile preserving their current inflated revenue stream.

II. BACKGROUND

The Commission adopted mandatory price cap regulation for the Bell Operating Companies (BOCs) and GTE Operating Companies effective January 1, 1991, and allowed other carriers to elect price cap regulation at their option.[2] In the LEC Price Cap Order, the Commission scheduled a performance review to evaluate the price cap system it adopted in that order. The Commission completed the first phase of the review in March 1995, adopting several interim revisions to the price cap plan.[3] Among those revisions were an increase in the productivity factor to a minimum of 4.0 percent, and optional productivity factors of 4.7 percent or 5.3 percent. The sharing and low-end adjustment rules were adjusted to change the amount of sharing associated with the

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[2] Policy and Rules Concerning Rates for Dominant Carriers, CC Docket No. 87-313, 5 FCC Rcd 6786(1990) (LEC Price Cap Order), recon, 6 FCC Rcd 2637 (1991), (LEC Price Cap Reconsideration Order), aff'd sub. nom., National Rural Telecom Assoc. V. FCC 988 F.2d. 174 (D.C. Cir. 1993). Those LECs that have elected price cap regulation are United and Central Telephone Companies, Rochester Telephone Corporation, The Lincoln Telephone and Telegraph Company, and Southern New England Telephone Company.

[3] See Price Cap Performance Review for Local Exchange Carriers, First Report and Order, 10 FCC Rcd 8962 (1995) (First Report and Order).

productivity factors, including elimination of all sharing obligations if a company chose the 5.3 percent factor. The Commission also revised its exogenous cost rules, and changed the lower limits on price reductions for the service categories.

In the initial Notice in CC Docket No. 94-1, the Commission sought comment concerning the manner in which the LEC price cap plan should be modified to adapt it to the emergence of competition in local access and exchange telecommunications markets.[4] In the First Report and Order, the Commission generally found that the record was insufficient on these issues, and deferred consideration of these items until this Second Further Notice.

Noting that its objectives are to promote competition, encourage market-based pricing, efficiency, and innovation, and to regulate efficiently and unintrusively to the benefit of consumers, the Commission states the following guidelines for evaluation of changes to adopted under this notice. First, the Commission will relax regulation only to the extent that doing so will not cause competitive harm. The proposed reforms should work to the benefit of consumers regardless of the level of competition. However, if there is an obvious potential for harm, the pricing flexibilities and other relief would be postponed until specific competitive standards are met. Second, the pricing flexibility allowed the LEC will result primarily in rate reductions. Finally, the

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[4] Price Cap Performance Review for Local Exchange Carriers, 9 FCC Rcd 1687 (1994) (Notice).

Commission will "eliminate price cap regulations that are no longer necessary to prevent anti-competitive behavior or promote LEC innovation or efficiency whenever doing so would not disadvantage consumers."[5]

The Commission seeks comments on its cost support requirements for new services and on the requisite changes to the price cap plan for three gradations of competition. First, it seeks comment on what modifications to the plan are necessary regardless of the degree of competition. It also seeks comment on the conditions under which the Commission can adopt streamlined regulation for LEC access services, and what form that streamlined regulation should take. Third, the Commission seeks comment on the circumstances under which it can grant the LECs non-dominant treatment.[6]

III. THE COMMISSION SHOULD GRANT ADDITIONAL PRICING FLEXIBILITY ONLY IF LEC RATES ARE FIRST DRIVEN TO ECONOMIC COST

The Commission seeks comment on a number of issues regarding additional downward pricing flexibility: whether the lower service band index limits can be reduced; whether there is a danger of predatory pricing or anti-competitive effects if the LECs are allowed to lower prices further and, if so, whether the Commission should set some more stringent upper flexibility limit on rates that have been reduced; what additional pricing flexibility the Commission can grant the LECs, including the relationship of that flexibility to

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5 Second Further Notice at para. 29.

6 Second Further Notice at para. 32.

the differing cost, demand, and other characteristics of geographic zones, and; whether pricing flexibility should be granted only if the LEC makes a showing that certain competitive conditions exist.

MCI agrees with the Commission that the goal of its price cap plan should be to drive rates toward the competitive outcome, i.e., to the true economic cost. MCI also believes that the LECs' true economic cost for providing access services is well below the current rates. For example, LEC switched transport rates were set at the level of LEC special transport rates in the transport rate restructure because the Commission believed those rates more nearly reflected the economic cost of transport. This resulted in an almost 70% reduction in those access charges.[7] In addition, the Benchmark Cost Model filed in the Universal Service Fund docket computes the nation-wide economic cost of providing loop and switching, and finds that the costs of those services exceeds a monthly charge of $20 by only $4 billion, even though interstate carrier common line charges and local switching charges recover almost $7 billion.[8]

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[7] This 70% difference is recovered in the Interconnection Charge.

[8] See Letter from MCI Telecommunications Corporation, NYNEX Corporation, Sprint Corporation, and U S WEST, Inc. to William F. Caton, Acting Secretary, filed on December 1, 1995 in CC Docket No. 80-286 (BCM Ex Parte). The monthly charge of $20 is approximately the current national average local charge, including federal subscriber line charges. The BCM model computed unseparated loop and switching economic cost for the entire country, except Alaska. The sum of local charges and the interstate access charges alone exceeds the economic cost of providing loop and switching. State access charges, which total about $7.1 billion, further over-recover the LECs'

The LECs' ability to harm competition by charging above-cost access rates will become even more of a problem if the LECs are allowed into long distance, either by the legislation currently pending in Congress or by waiver.[9] If the LECs are allowed to charge access rates which exceed the economic cost of providing that service, they will be able to raise their interexchange rivals' costs, and charge below-cost long-distance rates for their own customers. Thus, the LECs' above-economic cost access rates will distort both the interexchange and access markets. As MCI will discuss in its forthcoming pleading on the productivity offset and formulas, the Commission must revise the price cap plan to eliminate the large margin of upward pricing flexibility the LECs now have.

With respect to downward pricing flexibility, the LECs currently have unlimited pricing flexibility to reduce their rates to economic cost. Price cap LECs are free to reduce most rates by at least 5% a year in any category on a streamlined basis,[10] i.e., on 14 days' notice with a presumption of lawfulness.

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economic cost.

9 See, e.g., Proposed Order attached to Memorandum of the United States in Support of its Motion for a Modification of the Decree to Permit a Limited Trial of the Interexchange Service by Ameritech, filed with the MFJ Court April 3, 1995, in which the Department of Justice supports Ameritech's requested partial waiver of the line of business restrictions of the MFJ.

10 Certain categories, such as DS1, DS3, and the tandem-switched transport categories, have 10% downward pricing flexibility, and the LECs' zone pricing indexes have 15% downward pricing flexibility.

Rate decreases greater than this are also permitted, subject only to the requirement that the LEC demonstrates the rate is above the average variable cost. Hence, the current rate "floor" established by price caps is average variable cost, a policy fully consistent with antitrust law. However, few LECs have ever filed rates that reduce service category prices below the price "band," and none have ever seriously tested the lower boundary of average variable cost. Rate reductions, when they do occur, tend to follow a different pattern. Rates in the category remain within band, as the LEC lowers one rate and raises another to make up the revenue shortfall.

This pattern of LEC pricing speaks volumes about the issues raised by the introduction of additional pricing flexibility into the price cap rules. The obvious explanation for the scarcity of below-band filings is that LECs face no consistent, across-the-board competition. In an environment characterized by little competition, the LEC lacks any motive to reduce service category rates on a regional basis. What the LECs want is the ability to engage in highly targeted rate reductions that would eliminate a new entrant's ability to compete. In no event should the Commission permit this kind of anti-competitive pricing from being implemented. Moreover, if the Commission permits the LECs to move toward a more de-averaged pricing structure, then it should not increase the degree of downward pricing flexibility the LECs have -- it should continue to

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The Interconnection Charge has unlimited downward pricing flexibility.

require LECs to demonstrate that rates are above average variable cost. As the Commission has previously recognized, this is the only way to ensure that the LECs are not engaging in anti-competitive behavior.[11]

IV. THE EXISTING NEW SERVICE RULES PROVIDE NECESSARY CONSUMER PROTECTIONS

The Commission proposes to change its treatment of new services. Under current rules, new service filings are made on 45-days' notice. LECs must show the direct costs of providing the new service, using a consistent methodology for all related services, and may add a level of overhead costs to determine the price. Uniform overhead loadings are not required, but the LEC must justify its methodology as well as any deviations from that methodology. If a LEC wishes to introduce a lower priced version of an existing service, it may employ non-uniform overhead loadings in order to break even on that service. Furthermore, non-uniform overhead loadings are presumptively reasonable if the new service is priced below the rate of an existing close substitute service. Thus, the existing new service showing requires that the LEC price its service above direct cost, so the new service is not subsidized by existing services, and at or below direct costs plus some reasonable overhead loadings, so that the rate for the new service is not too high. New services are held outside the price cap indexes for six to eighteen months, until historical demand for the new service has been obtained for use in incorporating the new service into the price

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[11] See LEC Price Cap Order at 6824.

cap indexes.

Citing LEC concerns that the existing new service rules are unreasonably time-consuming and burdensome, the Commission proposes to change the treatment of new services. Specifically, the Commission proposes to create Track 1 and Track 2 new services. Track 1 new services would remain subject to the current new service rules, while Track 2 services would be subject to reduced cost support requirements and a shorter notice period of 14 days.

The Commission proposes two possible ways of distinguishing Track 1 and Track 2 services. First, it could leave all services as Track 1, until the LEC made a showing that competitive circumstances warrant relaxed Track 2 regulatory relief. The second option would be to allow Track 2 treatment for those services which raised no competitive implications, regardless of the level of competition the LEC actually faces. Track 1 services could, for example, be services essential to a LEC's competitors or those mandated by the Commission, such as expanded interconnection elements. Alternatively, Track 1 services could be defined as those services which are not close substitutes for an existing service.[12]

If the Commission adopts this "definitional" approach, it proposes to

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12 A service would be considered a close substitute for an existing service if customers could be reasonably expected to migrate to the new service from that existing service. The absence of a close substitute, the Commission states, would warrant more regulatory review of the new service. See Second Further Notice at para. 47.

delegate authority to the Common Carrier Bureau to determine whether a service is Track 1 or Track 2. A LEC seeking track 2 treatment of a new service would submit a petition for such treatment prior to filing the tariff, which the Bureau would have ten days to review. The petition would be assumed granted unless the Bureau denied the request within that time. Parties opposed to the classification would have opportunity within that time to file their objections.

The Commission proposes to retain the existing notice and cost support requirements for Track 1 services, but to allow Track 2 services to be filed on 14 days' notice, with only a showing that the new services' rates cover their direct cost.

The current cost showing for new services, that the service's rates are above direct cost but equal to or less than direct cost plus reasonable overheads, is a necessary protection. The price floor ensures that the LECs are unable to drive out competitors by pricing below cost while still recovering the difference from captive ratepayers. The price ceiling ensures that the LEC's customers are not overcharged for the new service. The primary source of dispute in the current new services' filings from MCI's perspective is the absence of any clear Commission policy on what overhead loadings are allowed. Were the Commission to provide explicit guidance on this issue, a great deal of the uncertainty regarding new services cost showings would be removed.

If the Commission wants to give the LECs more flexibility in pricing new services, it must do so in a manner that protects ratepayers. Once a service is

under price caps, the LEC has virtually unfettered flexibility to charge whatever rate it wishes, subject to the service category band limitations and the price cap index.[13] However, to the extent the LEC is pricing at the cap, it can raise a price only if it lowers some other price. A similar solution could be adopted for new services. New services could be priced at whatever level the LEC wishes, so long as the price exceeds direct cost. However, for any price above direct cost the LEC would be required to take an exogenous reduction to its Price Cap Index for the basket in which the new service will be included for any overhead loadings it recovers in that service.

Under this proposal, the LEC receives the same pricing flexibility for new services that it currently enjoys for existing services, and ratepayers and competitors are also protected. It also mitigates the double-recovery of overheads allowed the LECs under the current new service rules.

This method would also be consistent with the way new services were treated under rate of return regulation, where services introduced at mid-year were priced based on direct cost plus comparable overheads, and all rates were re-adjusted at the next annual filing to ensure that the LEC recovered only its costs. This allowed the LEC to achieve the rate relationship among its services that it wished, yet ensured that ratepayers were not paying excessive rates.

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13 As a practical matter, the demand quantities for most new services are so small relative to the existing category or basket that the LEC can substantially alter the new service price if it chooses to do so.

V. LECS SHOULD NOT BE ALLOWED TO USE ALTERNATIVE PRICING PLANS

The Commission seeks comment on whether to allow the LECs to provide optional discounted offerings, or Alternative Pricing Plans (APPs). The LECs are currently allowed to provide one type of APP, i.e., volume and term discounts on certain transport services when there is a certain level of demand for the LEC's interconnection service. The Commission seeks comment on whether further types of APPs should be allowed, and what regulatory treatment should be afforded to APPs.

MCI has in the past advocated that optional additional pricing plans, if competitively neutral from the perspective of the interexchange industry, ought to be permitted. However, the proper place to raise the issue of deviation from Part 69 requirements is in the Commission's announced Part 69 rulemaking. The price cap docket is fundamentally a docket evaluating Part 61 tariffing obligations and cost support. Flexibility in rate structures is a separate issue that has significant competitive consequences for both interexchange carriers and competitive access providers.

If the Commission nonetheless desires to resolve the rate structure issue in this proceeding, MCI offers the following comments. First, because optional pricing plans can have severe consequences to the interexchange and access markets, the Commission should require LECs first to obtain a waiver. To the extent LECs complain that waivers can be time-consuming, MCI replies that no

LEC has made the quantitative case that waivers introduce lengthy delay, and, furthermore, to the extent delays are experienced, they can be attributed to a persistent pattern of unclear and incomplete explanations by the LECs of proposed access structures. In MCI's experience, 9 out of 10 LEC waiver requests are so vague that it is virtually impossible to understand the request. The Commission should develop unambiguous, detailed guidelines for Part 69 waiver requests: (1) a list of Part 69 rate elements and corresponding rate elements the LEC would like to charge, together with a brief explanation of the costs that each element will recover and how that element will be priced (per minute, per query, etc.); (2) sample tariff pages; (3) a detailed explanation of why the request is being made with reference to the Commission's waiver standard; and (4) an explanation of the competitive effects the new structure will likely have in the interexchange market and access market. MCI further recommends that this information be collected in a standard format, similar to the tariff review plan.

With respect to price cap treatment, APPs should be treated like any other new service. The LEC must make a cost-based showing as described supra, and the rates for the service must be included into the price indexes in the annual filing in the year following the year in which the service is introduced.

The primary concern MCI has with APPs is the potential for their use by the LEC to unreasonably discriminate among its customers. If the APPs the LEC

offers are indeed generally available, the potential for competitive harm is somewhat minimized.[14] However, promotional pricing that is limited in its duration raises much greater issues of discrimination. Unlike other pricing plans that do not carry end dates, promotional pricing can be used to discriminate among interexchange customers and to harm emerging access competition. This effect can be further exacerbated by the use of eligibility windows. The result can be a steeply discounted plan that is effectively targeted to one customer. Even worse, because the LEC would receive price cap credit for the discount, the LEC has the ability to raise other rates in order to maintain its revenue stream. This capability could seriously harm competition in the interexchange industry. MCI strongly urges the Commission not to permit promotional pricing, defined as pricing plans that have either a window of eligibility or an end date. If such pricing is permitted, it should under no circumstances be given price cap credit.

VI. THE COMMISSION SHOULD RETAIN ITS CURRENT INDIVIDUAL CASE BASIS POLICY

Individual Case Basis (ICB) pricing is the practice of developing a price for a service or facility in response to each customer request for the service or facility. The Commission proposes several minor clarifications to its ICB policies, i.e., the LEC would be required to show in its supporting

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[14] However, a plan that is facially available to all may in reality be available only to a single IXC with particular characteristics -- e.g., call volume minimums can restrict availability.

documentation that the service is so unlike any existing service that the LEC could not develop generally available rates. Once the service has been offered for six months or has two or more customers, the LEC must develop generally available rates and support them as a new service under the price cap rules. The initial ICB rates would be filed under the cost support requirements of Section 61.38. ICB rates would continue to be excluded from price cap regulation, and special construction could continue to be offered on an ICB basis, without averaged rates.

MCI supports these modifications. We note, however, that we expect it would be very rare that a LEC could demonstrate that a service was so unlike any other that it should qualify for ICB treatment. If ICB status is easily obtained, the LEC will be able more easily to price discriminate in anti-competitive ways.

VII. THE LECS MUST PROVIDE MORE INFORMATION IF THE COMMISSION EASES THE PART 69 WAIVER PROCESS

The Commission proposes to modify its current Part 69 rules to allow the LECs more expeditiously to introduce new switched access services. Price cap LECs would be allowed to propose new rate switched access rate elements in a petition. This petition would not be required to meet the current standard for a waiver of the rules, but would be required only to show that the offering would serve the public interest. Once the Commission had granted this petition, other LECs would be able to submit a certification letter stating their intent to

provide the same service and use the same rate elements. If the Common Carrier Bureau did not deny this certification within ten days, it would be deemed granted. The LEC that initially proposed the service would not be required to state the precise elements it sought to offer, but instead would describe the service and the various alternative rate element structures under which the service could be offered. The Bureau order granting the petition would specify the acceptable types of rate elements for the proposed service. Finally, if the Commission adopts the Track 1 / Track 2 distinction for new services discussed supra, the LEC could combine its petitions for Track 2 status and for the new rate elements in the same petition.

The Commission adopted the current Part 69 access structure in 1983. At that time, competitive interexchange carriers (IXCs) were paying vastly different rates for the same access-like services. AT&T paid a rate that contained subsidies to ensure low local exchange service rates. Some IXCs paid discounted access rates to reflect their inferior quality interconnection, while other users of access-like services paid the LECs' business line rates. The Commission determined that these differing rates were unreasonably discriminatory, and mandated the Part 69 rules to establish uniform service definitions, cost recovery mechanisms, and pricing requirements.

The process by which the LECs are allowed to deviate from Part 69, whether by continuing the existing waiver requirements, or through some simplified process such as the Commission proposes here, must continue to

ensure that the access structure fosters interexchange competition. Doing so would be consistent with the recent cases in which the Commission has revised Part 69, such as in the Transport proceeding, where the Commission adopted changes that minimized the adverse effect on interexchange competition. The public interest showing that the LEC makes under this proposal must include a showing that the change would not hinder interexchange competition.

The simplified waiver process the Commission proposes creates substantial new administrative burdens, and does not provide adequate consumer safeguards. The LECs would file a waiver petition, potentially listing several rate structures, and the Commission would have to determine whether each of these potential structures would be acceptable. After the Commission had granted the waiver, the LECs would then file tariffs, and the Commission would again have to examine the tariff to determine whether the LEC had complied with the terms of the waiver. Thus, the Commission will have to examine several structures, only one of which is used, and then must re-examine the tariff filing to ensure compliance with its decision on the waiver.

MCI believes the Commission should move the process in the opposite direction. If the Commission creates a process that ensures the LECs provide complete and detailed information about what they want to charge, interested parties and the Commission staff will not have to spend time trying to understand the proposal, and the LECs may avoid unnecessary oppositions. Specifically, MCI proposes that the LECs should include the following in their

waiver requests: (1) a list of Part 69 rate elements and corresponding rate elements the LEC would like to charge, together with a brief explanation of the costs that each element will recover and how that element will be priced (per minute, per query, etc.); (2) sample tariff pages; (3) a detailed explanation of why the request is being made with reference to the Commission's waiver standard; and (4) an explanation of the competitive effects the new structure will likely have in the interexchange market and access market. MCI further recommends that this information be collected in a standard format, similar to the tariff review plan. This procedure will enable faster action on waiver requests, by more clearly illuminating the issues raised, instead of disguising or ignoring issues, which is what most waiver petitions do today.

VIII. NO SUBSTANTIAL CHANGES ARE NEEDED TO THE BASKETS AT THIS TIME

The current basket structure was put in place to group together similar services. In order to prevent the LECs from being able to raise rates for services which face less competition to offset decreases in rates for services which face greater levels of competition, the Commission instituted service categories, and on occasion has re-aligned baskets. Thus, in the transport proceeding, the Commission moved switched transport out of the traffic sensitive switched basket and into the trunking basket, along with the special access transport services, which according to the Commission faced similar levels of competition

with the advent of expanded interconnection.[15] Any changes to the LEC baskets should follow this same principle; services which face different levels of competition should be in different baskets. In addition, the basket structure should reflect the different functionality of LEC access networks, as well as the Part 69 structure.

IX. NO SERVICE CATEGORY CONSOLIDATIONS ARE NEEDED AT THIS TIME

No service category or basket consolidations are warranted at this time. The DS1 and DS3 service subcategories that the Commission mentions as one possible candidate for consolidation are purchased by different categories of customers, as the Commission recognized in its Local Transport proceeding.[16] As a result, the Commission must analyze the effect on competition in the interexchange market before it consolidates these or any other categories. MCI believes that such consolidation would have an adverse effect on competition because, as the Commission notes, consolidating categories will simply allow the LEC greater flexibility to raise rates to fund any rate reductions. The Commission will have to be even more aware of the effect of category consolidation if it grants any additional pricing flexibility.

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15 See Transport Rate Structure and Pricing, Second Report and Order, 9 FCC Rcd 615, 622 (1994) (Second Transport Order).

16 See Second Transport Order at 623.

X. OPERATOR SERVICES AND CALL COMPLETION SERVICES SHOULD BE IN THEIR OWN SERVICE CATEGORIES

MCI continues to believe that operator services should be in their own service category. However, MCI does not agree with the Commission that "call completion services are subject to more competition than operator transfer service and line status verification, because they may be provided by any operator service provider (OSP)."[17] While other OSPs may provide these call completion services, the decision of whether to use the LEC or an OSP is not made by the customer at the time of each call, but by the owner of the phone based on the entire array of services offered by the LEC or OSP, not solely on the call completion service. For residential telephones, that company will be the LEC. For commercial and payphones, that company may be an OSP other than the LEC, but the decision on which of those companies to use will not be made by the end user customer, nor by the IXC.

Neither the operator services nor call completion services will face significant competition. MCI believes both of these services should be included in one service category.

XI. THE ADDITIONAL FLEXIBILITY PROPOSED BY THE COMMISSION SHOULD BE PREMISED ON THE LECS' MOVING RATES TO ECONOMIC COSTS

The Commission states that its purpose in granting additional pricing flexibility to the LECs as they face greater competition is to encourage them to

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[17] Second Further Notice at para. 101.